



## Missouri Division of Finance

# UPDATE

### A Report of Missouri State Chartered Financial Institutions

Issue 98-3

July 1998

From . . .  
**Commissioner Earl L. Manning**

The Division of Finance has been named a winner of a 1998 Governor's Award for Quality and Productivity for its Indirect Examination Costs Project. Members of that project team include: Kenneth L. Walls, Lawrence C. Clos, Mike Thomas, Carol Smith, Jeff Luetkemeyer, and Mike Imhoff. The presentation ceremony will be at 2:00 on July 29, 1998, in the Capitol Rotunda.

You may be aware that the Division has always tried to keep down direct costs—the fees paid by state chartered banks—through internal efficiencies. We realize that overall costs contain indirect expenses which include bank employees' time used in examination related tasks. Identifying, quantifying, and reducing these indirect costs were the tasks of this project.

The team gathered information from banks of various types, sizes, and locations. One size does not fit all in banking; so, we got input from a cross section of banks. The team documented the time used and the job descriptions of those involved. The time and corresponding dollar costs were plotted on a spreadsheet to

establish a baseline of bankers' costs. The importance of each bit of information was evaluated to see if procedural changes might reduce bank employee time and costs. Clearly, duplication is waste. The team removed duplicated effort and items whose absence would not affect the safety and soundness evaluation.

The results of the project will be reduced costs of state government and improved efficiency by tailoring information requests to the business practices and risk profile of each type of institution. The payoff is measurable savings in bank personnel resources used during the examination. It was also good for the examination professionals and staff members to view the examination process from the bankers' perspective.

The result is a more efficient examination.

Recommendations of the team could result in total cost savings per examination cycle of approximately 9,300 bankers' hours or about \$220,000. That time savings can enable a bank to better serve its customers and contribute to net income.

We are gratified to have been recognized with this award, and we thank the team members.

However at least as important is a greater efficiency at our tasks and the accompanying heightened awareness of the costs to our customers, the state chartered banks of Missouri.

#### GENERAL USURY

Section 408.030 provides that the Director of Finance shall declare the quarterly market rate of interest each quarter, post it in accordance with Section 361.110 and publish it in appropriate publications. Said quarterly market rate for the period July 1, 1998 through September 30, 1998 shall be 9.0%; as an alternative, 10% may be used.

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## QUALITY IN STATE REGULATION

The Division of Finance continues to look for ways to perform high quality examinations in the most efficient and least burdensome manner to the bank. We are pleased to report our performance results for 1997.

**GOAL:** Maintain high quality examinations.

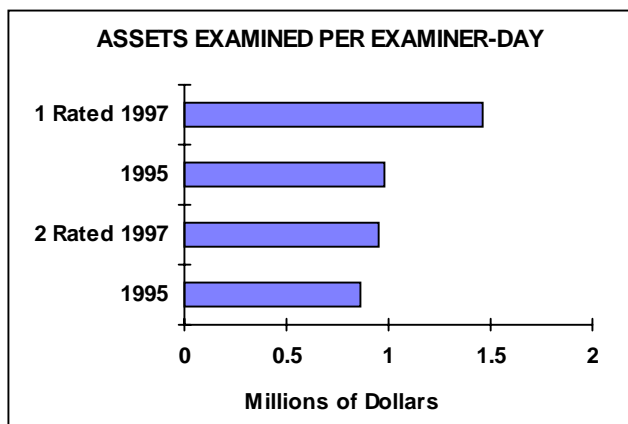
**RESULT:** During 1997 the Division adopted the "Sensitivity to Market Risk" component of the CAMELS rating, upgraded examination work programs, formalized pre-examination planning, began testing ELVIS (automated risk focused examination program), and connected each field office to the Internet for quick access to regulatory information.

**GOAL:** Minimize examination burden on 1-rated banks.

**RESULT:** On average, 56% more assets are examined per day in a 1-rated bank than a 2-rated bank. Examinations of 1-rated banks are more efficient.

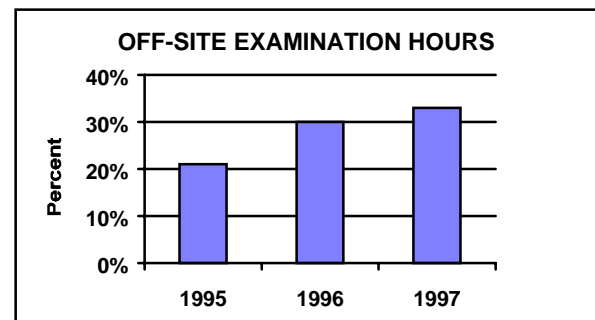
**GOAL:** Examination efficiency.

**RESULT:** We compared our efficiency performance in banks examined during 1997 with that of the prior state examination. This is measured by the ratio of Assets Examined Per Examiner-Day. In 1-rated banks, the measure improved 49% over that of the prior state examination. In 2-rated banks, the measure improved 10%.



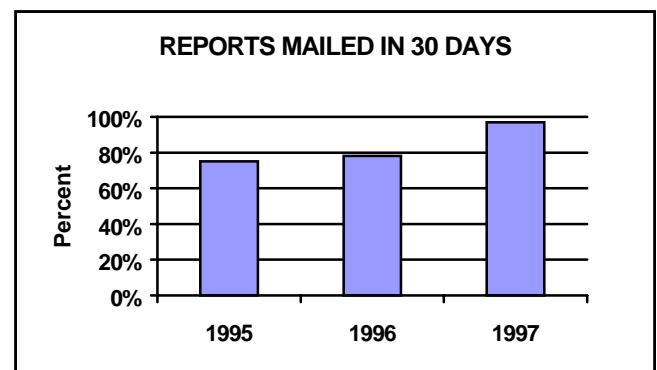
**GOAL:** Reduce examination burden by minimizing examiner presence in the bank.

**RESULT:** 33% of the average bank examination hours are spent off-site.

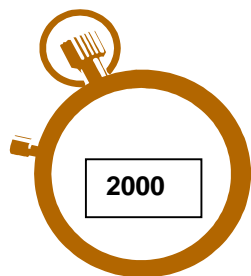


**GOAL:** Improve the value of the examination report by providing the final copy to the Board of Directors within 30 days after examiners leave the bank.

**RESULT:** For the quarter ending 12/97, 97% of routine examinations were mailed to the bank within 30 days. This compares to 78% in 1996.



## Y2K HOT BUTTONS



Unfortunately for some institutions, management has not made Year 2000 Readiness a priority. They probably ended up with a “Needs Improvement” rating after examiner review. This is a sure way to guarantee you’ll see examiners every couple of months on follow-up visits.

FDIC recently reported 88 percent of the banks they regulate are making satisfactory progress in addressing Y2K. Missouri state-chartered banks show about the same progress. In cases where management's efforts have been inadequate, due to the critical nature of the problem and non-negotiable deadline, regulators will likely “assist” the Board of Directors in making Year 2000 a high priority by placing the bank under administrative action.

We compiled the following “short list” of items that caused low ratings in recent Y2K reviews in the hope of helping Missouri institutions avoid pitfalls.

- **WRITTEN PLAN** – Better late than never! Surprisingly, some institutions examined as late as May 1998 have not developed a formal written project plan. Examiners will be looking for a plan in writing, adopted by the board, that includes budget data, specific target dates for completion, and systems for tracking progress.
- **STATUS REPORTING** – Examiners will be checking to see that the team or committee responsible for Y2K issues has been designated by the board of directors and that periodic status reports are made to the directors. Board minutes should reflect this action and on-going board discussion. The reports should include progress in meeting timetables for corrective measures.
- **VENDOR AND SERVICE PROVIDER CONTACT** – This is a common, major weakness in institutions rated below satisfactory. Management needs to show examiners they are proactive in seeking vendor/provider status reports and testing dates. Track it - do not sit back and rely on unsolicited letters stating everything will be fine. Have a checklist of hardware/software providers and monitor their status. Keep an organized file that shows a log of contacts, date and nature of responses received, and timeframes stated for compliance.
- **TESTING PLAN** – Plans and strategies for testing will be a focus of examiner attention the next few months. Again, document in writing when specific systems will be ready for testing.
- **CUSTOMER CONTACT** – Again, document the fact that you have identified customers whose computer systems or business could be significantly affected by Y2K problems. They present risk to the bank. Include a Y2K assessment as part of the credit review on loan requests. Do you have a plan of action in the event major customers are impacted by Y2K?

- **CONTINGENCY PLANNING** – Another area for close review at your next examiner review. Again, document it. Establish trigger dates for alternative action if testing dates or conversion timetables are not met. Figure out what your options are and have a backup plan for mission-critical systems. Some bankers have stated their plan is to revert to manual systems. While this may be possible in very limited instances, realistically even small institutions could not operate in this manner more than a couple of days and maintain accurate records.

Make sure these areas are receiving attention from the highest levels in your organization. Examiners want to see written evidence of your activities in addition to management's comments on progress. For more information, check the Federal Financial Institutions Examination Council's (FFIEC) web site: <http://www.ffiec.gov/y2k>.

#### **Y2K – FFIEC KEY MILESTONES:**

6-30-98	Complete written testing plans and strategies.
9-1-98	Institutions with in-house computer systems should commence testing mission-critical applications.
12-31-98	Testing of in-house computer systems should be complete.
3-31-99	Testing of vendor and service provider products for mission-critical systems should be substantially complete. Testing with third parties (customers, other institutions, payment system, etc.) should have begun.
6-30-99	Testing complete and implementation substantially complete.

## **AVERAGE ASSESSMENT RATE DECLINES**

The Division of Finance's average assessment rate\* for banks declined substantially for FY 1999. The reduction -- from 19.1 cents per thousand to 17.1 cents per thousand -- results from several factors:

- ◆ **Heightened efficiencies within the Division of Finance as reflected by a reduction in staff by ten (10) full-time employees.**
- ◆ **Increased revenues from licenses and miscellaneous fees.**
- ◆ **More equitable assessment of pure trust companies.**
- ◆ **Increase in assets assessed.**

\* Due to the complexity of the assessment formula, the percentage of reduction will vary by institution. Assuming zero growth, a bank's assessment will decline by 11%.

## CSBS EDUCATION INITIATIVE

The CSBS Education Division has developed a comprehensive examiner training program for the Reserve Bank of Zimbabwe (RBZ), in cooperation with the International Monetary Fund and the World Bank. The Missouri Division of Finance will be represented by District Supervisor Eric McClure.

The training program has three phases:

- **Electronic Technology** - RBZ examiners will employ multimedia PCs in using the CD-ROM-based Multimedia Library supplied by CSBS. The rigorous eight-week program will ensure that all students have a good grasp of examination fundamentals.

Individual student mentoring will enhance this phase and will feature CSBS's innovative Online University. The use of this distance learning technology will allow instructors in the U.S. to communicate with their Zimbabwe students via the Internet. Students interact -- receive instructions and ask questions -- through a 'virtual classroom' on their computers.

This phase will involve two separate eight-week training sessions as demand is high.

- **On-site Classroom Instruction** - A team of CSBS instructors will travel to Zimbabwe and conduct three weeks of classroom training, focusing on case studies, role playing, effective communications techniques, and group discussions.
- **On-the-job Training** - The CSBS team and RBZ students will spend six weeks actually conducting examinations in Zimbabwe banks. This training technique allows RBZ examiners, under the guidance of seasoned professionals, to apply, "hands on", the fundamentals learned during the first two phases of training.

The "Z-Team" will consist of, in addition to McClure, representatives of five other state banking departments and CSBS staff members.

The first meeting of the entire Z-Team took place May 31-June 2 in Dallas. The team, once actually in Zimbabwe, will work three week rotations beginning September 28.

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## S&L COMMISSION

Sections 369.309 and 369.314 RSMo create and empower a 5-person state savings and loan commission with the duties of approving proposed regulations concerning savings and loans and of hearing appeals from decisions of the Commissioner.

Governor Mel Carnahan recently appointed a completely new commission. Those appointees and the dates of the end of their terms are:

Richard C. Fellhauer of St. Louis, for a term ending October 10, 1999  
David G. Just of Cameron, for a term ending August 29, 2003  
Christina R. Neff of Jefferson City, for a term ending August 29, 2001  
Janet L. Payden of Marceline, for a term ending October 10, 2003  
Bayard C. Plowman of Hannibal, for a term ending August 29, 2003

## **RETIREMENT**

Kenneth L. Walls, long-time Deputy Commissioner of Finance, has announced his retirement effective August 19, 1998. The departure ends a career which spanned 32 years and the administrations of 7 different commissioners.

Walls joined the Division of Finance in 1966 having previously been employed by Lindell Bank and Trust Company. He started his duties with the Division as an assistant examiner in St. Louis and was promoted to examiner and senior examiner prior to being appointed district supervisor for the Sikeston district in 1973. He was named chief examiner in 1977, a position he held for 12 years, including 19 months in 1979-81 during which he was acting deputy commissioner. He was named to his current position as deputy commissioner in 1989.

"Ken Walls has been the institutional memory of the division for many years," said Commissioner Earl L. Manning. "He functioned both as a leader and as an adviser. His departure will leave a gap not easily filled."